

mortgage investment conduit) may be indirectly subject to alternative minimum tax and an environmental tax because interest on the 1995A Bonds will be included in the earnings and profits of the corporate bondholder. Interest on the 1995A Bonds held by foreign corporations may be subject to the foreign branch profits tax.

Ownership of the 1995A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain S corporations with "excess net passive income," individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 1995A Bonds. Bond Counsel will express no opinion as to these collateral tax consequences. Prospective purchasers of the 1995A Bonds who may be subject to such consequences should consult their tax advisors.

The initial public offering price of certain 1995A Bonds ("Discount Bonds") may be less than the principal amount payable at maturity. The difference between the initial public offering price of the Discount Bonds and the principal amount payable at maturity constitutes original issue discount. Bond Counsel is of the opinion that the appropriate portion of such original issue discount allocable to the original and each subsequent holder of Discount Bonds will, upon sale, exchange, redemption, or payment at maturity of such Discount Bonds, be treated as interest and excluded from gross income for federal income tax purposes to the same extent as interest on the 1995A Bonds.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the 1995A Bonds for interest thereon to remain excludable from the gross income of the owners of the 1995A Bonds for federal income tax purposes. Noncompliance with such requirements may cause the interest on the 1995A Bonds to be includable in the gross income of the owners of the 1995A Bonds for federal income tax purposes, retroactive to the date of issue of the 1995A Bonds.

Bond Counsel will also render the opinion that, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of issuance of the 1995A Bonds, the 1995A Bonds are exempt from personal property taxes in Pennsylvania, and the interest on the 1995A Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

THE BOND TRUSTEE AND MASTER TRUSTEE

The obligations of the Bond Trustee and the Master Trustee (the "Trustees") are described in the Bond Indenture and the Master Indenture (the "Indentures"), respectively. The Bond Trustee and the Master Trustee have undertaken only those obligations and duties which are expressly set out in the respective Indentures. The Trustees have not independently passed upon the validity of the 1995A Bonds or the 1995A Master Note, or the security of the payment thereof, the adequacy of the provisions for such payment, or the status for federal or state income tax purposes of the interest on the 1995A Bonds. The Bond Indenture and the Master Indenture expressly provide that the respective Trustees will not be responsible for any loss or damage resulting from any action or inaction taken in good faith in reliance upon an opinion of counsel.

UNDERWRITING

The 1995A Bonds are being purchased by PNC Securities Corp at an aggregate discount of \$389,409.08 from the initial offering prices of the 1995A Bonds set forth on the inside front cover page hereof. The purchase contract between the Underwriter and the Authority provides that such Underwriter will purchase all of the 1995A Bonds if any are purchased, and contains the agreement of the Obligated Affiliates to indemnify the Underwriter and the Authority against losses, claims, damages and liabilities to third parties arising out of any materially incorrect or incomplete statements of information contained in this Official Statement pertaining to the Obligated Group. The initial public offering prices set forth on the cover page may be changed by the Underwriter, and the Underwriter may offer and sell 1995A Bonds to certain dealers (including dealers depositing 1995A Bonds into investment trusts) and others at prices lower than the offering prices set forth on the cover page hereof.

RATINGS

Standard & Poor's and Moody's have given the 1995A Bonds ratings of "AAA" and "Aaa," respectively, based upon the issuance by the Bond Insurer of the Bond Insurance Policy. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The Authority and the Obligated Affiliates furnished to such rating agencies certain information and materials concerning the 1995A Bonds and themselves. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 1995A Bonds.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements for the Obligated Group as of June 30, 1994 and June 30, 1993, and for the years then ended, included in Appendix B hereto, have been audited by Coopers & Lybrand L.L.P., independent accountants, as stated in their report included in such Appendix.

FINANCIAL ADVISOR

Cambridge Capital Partners, Inc., New York, New York has served as financial advisor to the Obligated Group with respect to the offering and sale of the 1995A Bonds and assisted the Obligated Group in matters relating to the planning, structuring and issuance of the 1995A Bonds.

ADDITIONAL INFORMATION

AGH has covenanted in the Loan Agreement to provide to the Bond Trustee, the Authority, Moody's Investors Services, Inc. and Standard & Poor's Ratings Group copies of the audited financial statements of AGH within 150 days of the end of each Fiscal Year of AGH. In addition, the Obligated Affiliates are required under the Master Indenture to provide to the Master Trustee, each Noteholder who

so requests (including the Bond Trustee as the holder of the 1995A Master Note), Moody's Investors Services, Inc. and Standard & Poor's Ratings Group copies of the audited financial statements of the Obligated Group within five months of the end of each Fiscal Year.

Except as described above, neither AGH nor the Obligated Affiliates are required to provide to any Bondholder, the Securities and Exchange Commission or any state securities commission or agency or information repository financial information concerning AGH or the Obligated Group on a periodic basis, nor have they contracted to do so. However, AGH and certain other affiliates of AHERF with outstanding publicly-held debt have undertaken voluntarily to provide certain financial and operational information on a regular basis to the securities markets through the trustees for their outstanding bond issues. AGH intends to continue to provide such secondary market disclosure through the Bond Trustee.

MISCELLANEOUS

AGH has furnished the information herein related to the Obligated Group. The Authority has furnished only the information included herein under the section entitled "THE AUTHORITY". Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The foregoing and following summaries or descriptions of provisions of the 1995A Bonds, the Bond Indenture, the Loan Agreement, the 1995A Master Note, the Master Indenture and the Bond Insurance Policy, and all references to other materials not purporting to be quoted in full, are only brief outlines for some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. For a complete statement of the provisions of such documents, reference is made to the documents in their entireties, copies of which are on file at the principal office of the Bond Trustee, in Pittsburgh, Pennsylvania.

The information hereinabove set forth, and that which follows in the Appendices, should not be construed as representing all of the conditions affecting the Authority, the Obligated Group or the 1995A Bonds.

This Official Statement is approved and authorized for distribution by the Authority and AGH.

**ALLEGHENY COUNTY HOSPITAL
DEVELOPMENT AUTHORITY**

By: /s/ Michael A. Kaufman
Vice Chairman

ALLEGHENY GENERAL HOSPITAL

By: /s/ Anthony M. Sanzo
President

Appendix A

The Obligated Group

**The information contained in this Appendix A
to the Official Statement has been obtained
from Allegheny General Hospital**

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THE OBLIGATED GROUP

Allegheny General Hospital ("AGH") and Allegheny-Singer Research Institute ("ASRI") are the sole members of the Obligated Group established under (and as defined in) the Master Indenture. In November, 1994, Allegheny Neuropsychiatric Institute ("ANI"), which previously had been a member of the Obligated Group, was merged into AGH and the operation of its programs was transferred to AGH. AGH continues to operate ANI's programs under the name "Allegheny Neuropsychiatric Institute". (See the caption, "ALLEGHENY GENERAL HOSPITAL-Patient Care Services-Allegheny Neuropsychiatric Institute," below for additional information regarding ANI.)

AGH and ASRI are Pennsylvania nonprofit corporations, exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as organizations described in Section 501(c)(3) of the Code, and are not private foundations under Section 509(a) of the Code. See the captions, "ALLEGHENY GENERAL HOSPITAL" and "ALLEGHENY-SINGER RESEARCH INSTITUTE," below for additional information regarding AGH and ASRI.

AGH and ASRI are also members of an affiliated group of corporations referred to herein as the Allegheny System. See the caption, "THE ALLEGHENY SYSTEM," below.

THE OTHER MEMBERS OF THE ALLEGHENY SYSTEM HAVE NO OBLIGATION OR LIABILITY WITH RESPECT TO THE 1995A BONDS OR ANY OBLIGATIONS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE. THE MEMBERS OF THE OBLIGATED GROUP HAVE NO OBLIGATION OR LIABILITY WITH RESPECT TO THE DEBT OBLIGATIONS OF SUCH OTHER MEMBERS OF THE ALLEGHENY SYSTEM.

Capitalized terms used but not defined in this Appendix A are defined in the forepart of the Official Statement to which this Appendix A is attached and in Appendix C thereto.

THE ALLEGHENY SYSTEM

General

The Allegheny System is comprised of a number of nonprofit and for-profit corporations, including AGH and ASRI, which are controlled or owned by Allegheny Health, Education and Research Foundation ("AHERF"), a Pennsylvania nonprofit corporation. AHERF's principal offices are located in Pittsburgh, Pennsylvania, along with the facilities of AGH and ASRI, and the facilities of the other members of the Allegheny System are located in or near Philadelphia, Pennsylvania. AHERF and the other nonprofit members of the Allegheny System are organized and operated to serve the charitable purpose of promoting the general health of the communities in which they are located through the delivery of a comprehensive range of health care and support services, together with education and research programs, offered in an academic setting.

The Allegheny System has grown significantly since the mid-1980s, particularly in the Philadelphia, Pennsylvania metropolitan area. Such growth has occurred as a consequence of various affiliations and mergers with and acquisitions of various health care providers and academic organizations and subsequent divisions and reorganizations. Generally, the affiliations and acquisitions occurred

without refinancing any then existing indebtedness of the organizations that were affiliating with or being purchased by affiliates of AHERF. However, subsequent to the various affiliations and acquisitions, AHERF implemented various divisions and corporate reorganizations with the objective of centralizing control of operations along two general lines of activities, one being acute care and clinical activities and the other being academic activities. Although control over operations has been so established, there continue to exist three discrete credit groups in the Philadelphia metropolitan area as well as the Obligated Group in Pittsburgh, with each group independent of any obligation to pay the indebtedness of the others, all as described below under the caption, "THE ALLEGHENY SYSTEM—Indebtedness of the Members of the Allegheny System".

The Allegheny System has over 2,700 licensed beds, 2,600 students, 3,313 faculty members and 15,832 full-time equivalent employees. It is the largest single provider of health care services in the Commonwealth of Pennsylvania.

For the fiscal year ended June 30, 1994, the members of the Allegheny System, including AGH and ASRI, had total operating revenue of \$946,187,000, total operating expenses of \$958,700,000 and non-operating gains (net) of \$26,655,000. This produced an excess of revenue and net gains over expenses of \$14,142,000 for the Allegheny System for fiscal year 1994. At June 30, 1994, the members of the Allegheny System had total assets of \$1,514,007,000 and total liabilities of \$825,644,000.

Members of the Allegheny System

Set forth below is a description of those corporations, in addition to AGH and ASRI, which are members of the Allegheny System.

Allegheny Health, Education and Research Foundation

General. AHERF is the parent corporation of the members of the Allegheny System and is responsible for coordination, policy making and fund raising for the Allegheny System. It also provides centralized corporate services for the Allegheny System, including planning, communications, legal, payroll, finance, budgeting, accounting, billing, reimbursement, information systems, risk management and human resource services.

AHERF also provides management services to Ohio Valley Health Services and Education Corporation ("Ohio Valley Health"), a West Virginia nonprofit corporation which owns Ohio Valley Medical Center, Wheeling, West Virginia, with a licensed acute-care bed capacity of 453 beds, Peterson Rehabilitation and Geriatric Center, Wheeling, West Virginia, with a licensed bed capacity of 22 rehabilitation beds, 62 skilled nursing beds and 88 long-term care beds, and East Ohio Regional Hospital, Martins Ferry, Ohio, with a licensed bed capacity of 155 acute-care beds, 86 long-term care beds and 8 skilled nursing beds. Ohio Valley Health is not affiliated with AHERF or any other member of the Allegheny System.

Management. Set forth below is selected biographical information on the principal members of the management of AHERF.

Sherif S. Abdelhak has been the President and Chief Executive Officer of AHERF since 1986. Before joining AHERF in 1986, Mr. Abdelhak was the President and Chief Executive Officer of the Greater Canonsburg Health System, Canonsburg, Pennsylvania, for over three years. He was

previously employed by AGH from 1971 to 1982. He received a bachelor's degree in economics and political science from the American University of Cairo, Cairo, Egypt and a master's degree in business administration from the University of Pittsburgh, Pittsburgh, Pennsylvania.

David W. McConnell has been the Executive Vice President and Chief Financial Officer of AHERF since 1988. Previously he had served as the Senior Vice President and Chief Financial Officer of AHERF since 1986. From 1980 until 1986, Mr. McConnell served in three different capacities at AGH. From 1980 to 1983 he was the Manager of Financial Planning. From 1983 to 1985 he was the Director of Finance. From 1985 to 1986 he was the Vice President of Finance. Prior to joining AGH in 1980, Mr. McConnell served as the Assistant Controller of Ohio Valley General Hospital, Pittsburgh, Pennsylvania, for six years. He received a bachelor's degree in accounting and business administration from Robert Morris College, Pittsburgh, Pennsylvania, and a master's degree in public health care management from Carnegie Mellon University, Pittsburgh, Pennsylvania.

Dwight Kasperbauer has been the Executive Vice President and Chief Human Resources Officer of AHERF since April, 1992. Previously, he had served as the Senior Vice President of AHERF since 1988 and the Vice President of Human Resources at AGH since 1984. He received an undergraduate degree in business and a graduate degree in industrial relations from Iowa State University. From 1980 to 1984, Mr. Kasperbauer served as the Vice President of Employee Relations for Minneapolis Electric Steel Casting Company, Minneapolis, Minnesota. Mr. Kasperbauer has a total of 23 years of experience in human resources and industrial relations.

Nancy A. Wynstra has been the Executive Vice President and General Counsel of AHERF since 1988. Previously she had been the Senior Vice President and General Counsel of AGH since 1983. She received her bachelor's degree in history from Whitman College, Walla Walla, Washington, and her juris doctor degree from Columbia University School of Law, New York, New York. Prior to joining AHERF, Ms. Wynstra was the Chief Counsel of Michael Reese Hospital and Medical Center, Chicago, Illinois, from 1978 to 1983.

The Medical College of Pennsylvania and Hahnemann University Hospital System.

The Medical College of Pennsylvania and Hahnemann University Hospital System ("MCPHUHS") is a Pennsylvania nonprofit corporation and a member of Hahnemann University Hospital ("HUH"), a Pennsylvania nonprofit corporation, and Allegheny United Hospitals, Inc. ("AUH"), a Pennsylvania nonprofit corporation. MCPHUHS, HUH and AUH are described below.

The Medical College of Pennsylvania and Hahnemann University Hospital System. MCPHUHS owns and operates the Medical College Hospitals - Main Clinical Campus ("MCH/MCC"), a tertiary care teaching hospital which is located in Philadelphia, Pennsylvania, and licensed for 336 beds. MCPHUHS also operates the Medical College Hospitals - Eastern Pennsylvania Psychiatric Institute ("MCH/EPPI") on behalf of the Commonwealth of Pennsylvania. MCH/EPPI is an inpatient and outpatient psychiatric facility for adults and children. It is located in Philadelphia, Pennsylvania and licensed for 129 beds. MCH/MCC and MCH/EPPI serve as principal clinical teaching facilities for The Medical College of Pennsylvania and Hahnemann University, which is described below.

Hahnemann University Hospital. HUH owns and operates Hahnemann University Hospital, a tertiary care hospital which is located in Philadelphia, Pennsylvania, and licensed for 636 beds. Hahnemann University Hospital also serves as a principal clinical teaching facility for The Medical College of Pennsylvania and Hahnemann University.

Allegheny United Hospitals, Inc. AUH owns and operates the Medical College Hospitals - Elkins Park Campus ("MCH/EPC"), an acute care hospital which is located in Elkins Park, Pennsylvania, and licensed for 343 beds. AUH also owns and operates the Medical College Hospitals - Bucks County Campus ("MCH/BCC"), an acute care hospital which is located in Warminster, Pennsylvania, and licensed for 178 beds.

The Medical College of Pennsylvania and Hahnemann University

The Medical College of Pennsylvania and Hahnemann University ("MCPHU") is a Pennsylvania nonprofit corporation located in Philadelphia, Pennsylvania, which owns and operates a health sciences university currently comprised of the School of Medicine, the School of Health Sciences and Humanities, and the Graduate School. MCPHU resulted from the merger of The Medical College of Pennsylvania ("MCP") and Hahnemann University ("HU") which occurred on January 1, 1995.

MCP was founded in 1850. HU was founded in 1848. During the 1994 Fall semester, MCP had an enrollment of 528 medical students. During the same semester, HU had an enrollment of 697 medical students, 865 graduate students in its Graduate School, and 1056 undergraduate students in its School of Health Sciences and Humanities. The tertiary facilities of MCPHUHS along with AGH and St. Christopher's Hospital for Children (described below) serve as the principal clinical teaching facilities for MCPHU. Planning is now underway for a new School of Public Health and a separate School of Nursing at MCPHU.

For the academic year of 1995-96, MCPHU will admit its first consolidated class of medical students. Until the students of MCP and HU who matriculated in the 1994-95 academic year are graduated in 1998, MCPHU will conduct three concurrent medical school tracks: MCP, HU, and the new combined program. The primary clinical education sites for MCPHU will be shared by all students.

St. Christopher's Hospital for Children

St. Christopher's Hospital for Children ("SCHC") is a Pennsylvania nonprofit corporation which owns and operates facilities located in Philadelphia, Pennsylvania consisting of an acute care children's hospital, an ambulatory care pavilion, a teaching and education center and research laboratories. SCHC, which is one of two children's hospitals located in the City of Philadelphia, is a regional referral center and is licensed for 183 beds. The children's hospital also serves as a principal clinical teaching facility for MCPHU.

Other Members of the Allegheny System

The following corporations are also members of the Allegheny System:

Allegheny Integrated Health Group. Allegheny Integrated Health Group ("AIHG") is a recently created Pennsylvania nonprofit corporation which acquires, develops and manages physician practices and ambulatory health services exclusively for the Allegheny System in both Pittsburgh and greater Philadelphia. In addition, AIHG has principal responsibility for managed care investments and contracting on behalf of the Allegheny System.

Diversified Health Group. Diversified Health Group, Inc. is a Pennsylvania for-profit corporation which participates in selected investment opportunities for the benefit of the Allegheny System.

Allegheny Health Services Providers Insurance Company. Allegheny Health Services Providers Insurance Company ("AHSPIC") is a for-profit corporation organized in 1986 and operating in the Cayman Islands. It is the main source of primary professional liability insurance for the Allegheny System. Such insurance covers all employees of the Allegheny System as well as certain non-employed physicians who are on the medical staff of AGH. As the Allegheny System has grown, the management of the captive insurance companies and the general and professional liability programs of merged institutions has been taken over by AHSPIC, and the claims handling of those other companies is managed consistently with AHSPIC.

Indebtedness of the Members of the Allegheny System

The following members of the Allegheny System are obligated to pay debt service on notes and bonds as follows:

AGH and ASRI

The Obligated Group of which AGH and ASRI are the sole members has previously issued notes under the Master Indenture which, in certain circumstances, secure the payment of debt service on bonds, as described below under the caption, "INDEBTEDNESS OF THE OBLIGATED GROUP".

NO MEMBERS OF THE ALLEGHENY SYSTEM, OTHER THAN AGH AND ASRI, HAVE ANY OBLIGATION OR LIABILITY WITH RESPECT TO THE MASTER NOTES ISSUED BY THE OBLIGATED GROUP UNDER THE MASTER INDENTURE, INCLUDING THE 1995A MASTER NOTE.

MCPHUHS and MCPHU

MCPHUHS and MCPHU have cross-guaranteed and cross-collateralized long-term bonds which, as of June 30, 1994, were outstanding in the aggregate principal amount of \$73,787,000. No other members of the Allegheny System have any obligation or liability with respect to these bonds.

AUH and SCHC

AUH and SCHC are members of an obligated group which has issued notes under a separate master indenture in order to secure long-term bonds which, as of June 30, 1994, were outstanding in the aggregate principal amount of \$120,325,000, exclusive of \$3,551,000 of unamortized bond discount at June 30, 1994. No other members of the Allegheny System have any obligation or liability with respect to these bonds or any obligations of AUH and SCHC under their master indenture.

HUH

HUH is the sole member of an obligated group which has issued notes under a separate master indenture in order to secure long-term bonds which, as of June 30, 1994, were outstanding in the aggregate principal amount of \$151,323,000. No other members of the Allegheny System have any obligation or liability with respect to these bonds or any obligations of HUH under its master indenture.

Corporate Governance of the Allegheny System

AHERF is the sole corporate member of all of the nonprofit corporations in the Allegheny System other than ASRI, AUH and HUH. AHERF is the sole "Class A" member of ASRI, AUH and HUH. In both capacities, AHERF has the following powers applicable to such corporations: to appoint and remove directors; to approve amendments to articles of incorporation and by-laws; to approve annual operating and capital budgets; to approve unbudgeted expenditures in excess of certain amounts; to approve borrowings from external sources; to approve mortgaging of real property; to direct investments; and to approve the appointment and/or the removal of the respective presidents of each corporation.

AGH is the sole "Class B" member of ASRI, and in such capacity has the following powers, all subject to the approval of AHERF as the "Class A" member: to appoint directors; to recommend approval of amendments to articles of incorporation and bylaws; to approve annual cooperating and capital budgets; to approve unbudgeted expenditures in excess of certain amounts; and to approve the borrowing of funds from external sources.

AHERF is the sole shareholder of the for-profit members of the Allegheny System.

MCPHUHS is the sole "Class B" member of HUH.

ALLEGHENY GENERAL HOSPITAL**General**

AGH has provided health care services to the residents of the greater Pittsburgh region for more than 100 years. Its tertiary care hospital facility, which is located in Pittsburgh, Pennsylvania approximately two miles north of downtown Pittsburgh, has grown from a 50-bed hospital, built in 1886, to its present licensed capacity of 835 beds (excluding 22 nursery beds), which includes 755 acute care beds and 80 skilled care beds of the Continuing Care Center. The 755 acute care beds include 59 inpatient psychiatric beds of the Allegheny Neuropsychiatric Institute, which is described below. Currently 716 acute care beds and all of the Continuing Care Center beds are staffed. Patients of AGH's health care facilities come from a five-state area which includes Pennsylvania, West Virginia, Ohio, New York and Maryland.

Board of Trustees

Members of the Board of Trustees of AGH are appointed by AHERF to staggered three-year terms. Trustees receive no compensation for their services as trustees.

Listed below are the names of the members of the Board of Trustees of AGH, their offices and their professional affiliations.

BOARD OF TRUSTEES ALLEGHENY GENERAL HOSPITAL	
Name/Office	Professional Affiliation
David W. Sculley Chairman	Senior Vice President H.J. Heinz Company
Frank V. Cahouet Vice Chairman	Chairman and Chief Executive Officer Mellon Bank, N.A.
Nancy A. Wynstra, Esq.* Secretary	Executive Vice President and General Counsel AHERF
Joseph D. Dionisio* Treasurer	Senior Vice President and Chief Financial Officer - AGH Senior Vice President and Chief Information Officer - AHERF
William C. Kennedy* Assistant Secretary	Deputy General Counsel - AHERF
Cherry S. White* Assistant Secretary	Assistant Vice President, Corporate Affairs - AHERF

* Ex officio, without vote.

**BOARD OF TRUSTEES
ALLEGHENY GENERAL HOSPITAL**

<u>Name/Office</u>	<u>Professional Affiliation</u>
Sherif S. Abdelhak	President and Chief Executive Officer - AHERF
William F. Adam	Executive Vice President Mellon Bond Associates
William T. Duboc	Retired Director of Special Projects, Power Generation Business Unit Westinghouse
Harry R. Edelman, III	Chairman - Heyl & Patterson, Inc.
William H. Genge	Retired Chairman - KM&G International, Inc.
Ira J. Gumberg	President and Chief Executive Officer J.J. Gumberg Co.
Frederick R. Heckler, M.D.	Director, Division of Plastic Surgery - AGH
Robert M. Hernandez	Executive Vice President, Accounting and Finance, Chief Financial Officer - USX Corp.
Graemer K. Hilton	Retired President - Allegheny International, Inc.
Claude R. Joyner, M.D.	Chairman, Department of Medicine - AGH
Caryl M. Kline	Retired, former Secretary of Education Commonwealth of Pennsylvania
George J. Magovern, M.D.	Retired Chairman, Department of Surgery - AGH
Stanley M. Marks, M.D.	Director, Division of Hematology - AGH
David W. McConnell	Executive Vice President and Chief Financial Officer - AHERF
Donald J. McGraw, M.D.	Staff Physician - Shadyside Hospital
Richard K. Means, Jr.	President - Pittsburgh Business Properties
Francis B. Nimick, Jr.	Retired Chairman and Chief Executive Officer, Dollar Savings Bank
Robert B. Pease	Senior Vice President National Development Corporation
Richard L. Ray, M.D.	President-Elect, Medical Staff - AGH
Leonard L. Ross, Ph.D.	Provost - MCPHU

**BOARD OF TRUSTEES
ALLEGHENY GENERAL HOSPITAL**

<u>Name/Office</u>	<u>Professional Affiliation</u>
Anthony M. Sanzo	President and Chief Executive Officer - AGH
Vincent A. Sarni	Retired Chairman and Chief Executive Officer, PPG Industries, Inc.
A. William Schenck, III	Executive Vice President - PNC Bank Corp
J. Brandon Snyder	President - J.S. McCormick Company
W.P. Snyder, III	Chairman - AHERF President, The Wilpen Group
W. Bruce Thomas	Retired Vice Chairman and Chief Financial Officer - USX Corporation
Mary Warde	Auxiliary President - AGH
Donal A. Warde, M.D.	Past President, Medical Staff - AGH
Richard White, Ph.D.	Executive Vice President - Miles, Inc.

Relationship of Parties

AGH is subject to the AHERF Conflict of Interest Policy which requires that board members and management disclose any potential conflicts of interest and refrain from voting on issues which may present a conflict. Certain members of the Board of Trustees of AGH are associated with organizations which do business with AHERF and other members of the Allegheny System.

A. William Schenck III, who is a member of the Board of Trustees of AGH, is employed by PNC Bank Corp. PNC Bank Corp. is the holding company of PNC Securities Corp which is the Underwriter for the 1995A Bonds. Mr. Schenck disclosed his relationship with PNC Bank Corp. to the Board of Trustees during the Board's discussions relating to the issuance of the 1995A Bonds, and he refrained from participating in the discussions leading to the selection of PNC Securities Corp as Underwriter. Credit relationships currently existing between AGH and PNC Bank, National Association, another subsidiary of PNC Bank Corp., include PNC Bank, National Association, serving as the letter of credit provider on ~~another~~ AGH bond issue and an AGH master note issue, with a combined letter of credit amount equal to \$84,320,938 as of January 1, 1995.

In addition, Mr. Frank V. Cahouet, Vice Chairman of the Board of Trustees of AGH, is employed by Mellon Bank, N.A. Mellon Bank, N.A. is the Bond Trustee for the 1995A Bonds. Mr. William F. Adam, who is a member of the Board of Trustees of AGH, is employed by Mellon Bond Associates, an affiliate of Mellon Bank, N.A. Messrs. Cahouet and Adam have disclosed their respective relationships to the Board of Trustees of AGH during the Board's discussions relating to the issuance of

the 1995A Bonds, and have refrained from participating in the discussions leading to the selection of Mellon Bank, N.A., as Bond Trustee. Credit relationships currently existing between AGH and Mellon Bank, N.A. include a \$7.5 million term loan, scheduled to mature in June, 1999.

Management

Set forth below is selected biographical information on the principal members of the management of AGH.

Anthony M. Sanzo has been the President of AGH and Chief Executive Officer of AGH since 1990. Previously he had served as the Chief Operating Officer of AGH since 1986. Prior to joining AGH in 1986, Mr. Sanzo served as the Acting President and Chief Executive Officer of Presbyterian-University Health Systems, Inc. and Presbyterian-University Health Resources Management, Inc. in Pittsburgh, Pennsylvania. He received a bachelor's degree in economics from Allegheny College, Meadville, Pennsylvania, and a master's degree in hospital administration from Duke University, Durham, North Carolina.

Joseph D. Dionisio has been a Senior Vice President and the Chief Financial Officer of AGH since 1989. He is also a Senior Vice President and the Chief Information Officer of AHERF. Prior to joining AGH in 1989, Mr. Dionisio spent 20 years with Price Waterhouse providing auditing and consulting services primarily to the health care industry. He is a certified public accountant and received his bachelor of science degree in accounting from Point Park College, Pittsburgh, Pennsylvania.

Concetta M. Cibrone became the Senior Vice President, Operations, of AGH in 1994. Previously, she had served as a Vice President and an Assistant Vice President in hospital administration of AGH since 1986. From 1978 to 1986 she held various positions at Presbyterian-University Hospital, Pittsburgh, Pennsylvania, most recently as the Director of Planning. She received a bachelor's degree in mathematics and a master's degree in business administration, both from the University of Pittsburgh.

James O'Malley has been the Senior Vice President, Nursing Services, since 1993. Previously he served as the Vice President, Patient Care Services, of Sharp Healthcare in San Diego, California, from 1987 to 1993, as the Vice President, Nursing Services, of North Adams Regional Hospital, North Adams, Massachusetts from 1985 to 1986 and as the Associate Director, Nursing Services, of the University of Oregon Health Sciences Center, Portland, Oregon, from 1977 to 1984. He received a bachelor's degree from San Francisco State University, San Francisco, California, and a master's degree in nursing from Yale University, New Haven, Connecticut.

Description of Facilities

AGH currently owns and operates the facilities described below, all of which are located in Pittsburgh, Pennsylvania.

William P. Snyder, III Pavilion

The William P. Snyder, III Pavilion (the "Snyder Pavilion"), which opened in 1981, is a 13-story inpatient hospital building with approximately 740,000 square feet located on the main campus. All of AGH's inpatient services are offered at the Snyder Pavilion. The Snyder Pavilion has 21 surgical suites, five cardiac catheterization laboratories, nine labor rooms and four delivery rooms.

Northwest Wing

The Northwest Wing, which was completed in 1974 and contains approximately 90,000 square feet, is located adjacent to the Snyder Pavilion and provides major diagnostic and treatment services such as radiation therapy, diagnostic radiology, emergency/trauma services and laboratory medicine. A 5,100 square-foot addition to the Northwest Wing was completed by 1988 to house two nuclear magnetic resonance units. A second addition, which is currently being constructed in order to replace AGH's existing emergency and trauma services, will utilize approximately 93,000 square feet and contain 22 trauma ICU beds. Management of AGH expects that the second addition will be completed in April, 1996. A portion of the proceeds of the 1995A Bonds will be used to reimburse AGH for prior capital expenditures and to finance future capital expenditures related to the Northwest Wing.

South Tower

The South Tower was completed in 1939 and is a 22-story building with approximately 375,000 square feet located adjacent to the Snyder Pavilion. The South Tower provides space for outpatient clinics, research, business offices and professional and ancillary offices. Its unique architecture has been preserved and serves as a landmark for the Pittsburgh skyline.

Educational Conference Center

The Educational Conference Center was completed in July 1988, contains approximately 24,000 square feet and is located adjacent to the South Tower and the Northwest Wing. It has a 284-seat auditorium, sophisticated audio visual capabilities and multi-use facilities capable of handling groups ranging in size from 5 to 300 people.

Continuing Care Center

The Continuing Care Center was completed in June 1991, contains approximately 108,000 square feet and is located adjacent to the Snyder Pavilion. Approximately 76,000 square feet of the Continuing Care Center is used as an 80-bed skilled nursing facility offering skilled nursing services to former inpatients of AGH's hospital facility. The remaining approximately 32,000 square feet of the Continuing Care Center are not currently in use.

East Wing

The East Wing provides office space for private physician practices and hospital functions and is located adjacent to the South Tower. It was completed in 1988 and contains approximately 77,000 square feet. The East Wing also contains the Allegheny Outpatient Surgicenter with five operating suites and research laboratories for ASRI.

Parking Facilities

AGH owns two parking garages on the main campus, one (James Street) containing 817 spaces for physicians and public parking, and another (Hemlock Street) containing 1,240 spaces for employees.

Allegheny Building

The Allegheny Building, also known as Four Allegheny Center, is an approximately 211,000 square-foot building located in close proximity to the main campus. The Allegheny Building houses the outpatient psychiatric services; outpatient services in Obstetrics/Gynecology, Pediatrics and primary care; and the Allegheny Home Health Program. AGH also leases space in the Allegheny Building to primary care physicians for their private practices. The remaining approximately 105,000 square feet is leased to IBM. Adjacent to the Allegheny Building is a 288 car, 5-level parking garage also owned by AGH. A portion of the proceeds of the 1995A Bonds will be used to reimburse AGH for a portion of the purchase price of and renovations to the Allegheny Building, including its garage.

Oakdale Facility

Prior to November, 1994, the programs of ANI, which are described below under the subcaption, "Selected Operating Information – Patient Care Services – *Allegheny Neuropsychiatric Institute*" and which are now offered at AGH's main clinical hospital facility, were offered at ANI's facility located in Oakdale, Pennsylvania. As a result of the merger of ANI into AGH, as described under said subcaption, the Oakdale facility is now owned by AGH. AGH has received an indication of interest to purchase the Oakdale facility but has not entered into a definitive sale agreement for the facility.

AGH assesses its facility and space needs on an ongoing basis, both with respect to current, anticipated and possible future uses, and from time to time acquires or secures rights with respect to real property as such needs or AGH's assessment thereof change.

Selected Operating Information

Patient Origin and Service Area

AGH's primary service area is Allegheny County which includes Pittsburgh, Pennsylvania. The primary service area accounted for 52.6% of total discharges during the fiscal year ended June 30, 1994. AGH's secondary service area is defined as the ten counties in Pennsylvania surrounding Allegheny County and five adjacent counties in West Virginia and Ohio. The secondary service area represented an additional 34% of the total discharges from AGH's hospital facility during the fiscal year ended June 30, 1994. The remaining discharges are attributable to the region outside of Allegheny County and the secondary service area which encompasses the five states of Pennsylvania, West Virginia, Ohio, New York and Maryland.

Twenty-one other acute care hospitals are located in Allegheny County along with AGH. The following summary compares the inpatient utilization statistics (excluding newborn utilization) of the tertiary hospitals in Allegheny County which most directly compete with AGH.

COMPARISON OF SELECTED COMPETITORS' INPATIENT UTILIZATION STATISTICS						
Hospitals	Licensed Beds	Available Beds	Admissions	Patient Days	Average Length of Stay (Days)	Average Occupancy (% of Available Beds)
AGH ⁽¹⁾	746	746	29,389	211,313	7.2	78.4%
Mercy Hospital of Pittsburgh	571	510	19,537	154,171	7.8	81.8
Presbyterian University Hospital ⁽²⁾	915	724	18,101	232,638	12.7	88.0
Western Pennsylvania Hospital	542	515	19,352	148,372	7.9	78.9
St. Francis Medical Center	1,045	964	16,920	273,855	13.0	77.8
Montefiore University Hospital ⁽²⁾	600	383	14,931	110,060	7.3	78.7
Shadyside Hospital	635	603	20,118	181,942	9.1	82.7
Source: Pennsylvania State Health Data Center.						
⁽¹⁾ As of June 30, 1993. For all other hospitals, as of their respective fiscal years ended in 1993. The numbers for AGH include 22 nursery beds but do not include the Continuing Care Center or ANI licensed beds.						
⁽²⁾ These two hospitals are part of the University of Pittsburgh Medical Center.						

Patient Care Services

AGH offers a full range of inpatient and outpatient diagnostic and therapeutic services and related ancillary services, including the following:

Aeromedical Transport (Life Flight)	Oncology
Allergy	Open Heart Surgery
Anesthesiology	Ophthalmology
Cardiac Catheterization	Oral & Maxillofacial Surgery
Cardiology	Orthopaedics
Dentistry	Otorhinolaryngology
Dermatology	Pediatrics
Diagnostic Radiology	Pediatrics Cardiology
Emergency Medicine	Pediatric Endocrinology
Electrophysiology	Pediatric Intensive Care
Endocrinology	Pediatric Neurology
Gastroenterology	Pediatric Neurosurgery
General Medicine	Pediatric Radiology
General Surgery	Pediatric Surgery
Geriatrics	Pediatric Trauma
Gynecologic Oncology	Plastic Surgery
Hand Surgery	Proctology
Hematology	Psychiatry-Adult
Human Genetics	Psychiatry-Child
In-Vitro Fertilization	Psychiatry-Geriatric
Infectious Diseases	Reproductive Endocrinology/Infertility
Laboratory Medicine	Respiratory Disease
Neonatology	Rheumatology
Neurology	Skilled Nursing ⁽¹⁾
Neuro-oncology	Spina Bifida
Neuro-otology	Thoracic Surgery
Neuro-psychiatry ⁽¹⁾	Transplantation Services
Neurosurgery	Trauma Services
Nuclear Cardiology	Urology
Obstetrics/Gynecology	Vascular Surgery

⁽¹⁾ These services are offered by AGH at the Continuing Care Center.

The following is a description of certain of AGH's patient care services which are recognized for their excellence:

Cardiovascular Services. AGH has been a regional leader in the delivery of medical and surgical services to patients with cardiovascular disease. A complete range of invasive and non-invasive techniques is available. Six cardiac catheterization laboratories perform over 8,800 inpatient and outpatient cardiac angiography procedures annually, the largest number in the Commonwealth of

Pennsylvania. This figure includes over 2,400 coronary interventional procedures. The total number of interventional cases has increased from 989 procedures in fiscal year 1988 to 2,331 procedures in fiscal year 1994, a 136% increase. Since 1988, AGH has nearly doubled the number of angiographers on its staff to a current total of 46. AGH also has operated low-risk cardiac catheterization laboratories at The Beaver Medical Center, located in Beaver County, Pennsylvania, and Latrobe Area Hospital, located in Westmoreland County, Pennsylvania, since the late 1980's.

AGH has offered an open heart surgery program since 1956 and currently performs over 1,400 open heart procedures annually. In 1986, the cardiothoracic team made medical history by using a muscle flap to augment the heart's function. Since 1986, AGH has performed 34 muscle flap procedures and is one of the top five national institutions using this procedure. AGH began offering heart transplantation services in 1987 and, to date, has performed 82 procedures. AGH also supports the open heart program at The Beaver Medical Center.

AGH also provides comprehensive nuclear cardiovascular and electrophysiology services, performing over 4000 nuclear studies and 1700 electrophysiology studies each year since 1991.

Cardiovascular services are also supported by the non-invasive echocardiography laboratory, performing over 15,000 procedures annually for the last three fiscal years. The laboratory has performed sophisticated echocardiographic techniques, including stress echocardiography and transesophageal echocardiography.

AGH also offers a comprehensive cardiac rehabilitation program encompassing both the inpatient component of cardiac rehabilitation as well as a monitored and unmonitored exercise program for discharged patients.

Oncology. AGH is certified as a cancer center by the American College of Surgeons Commission on Cancer. AGH offers comprehensive programs in medical oncology/hematology, radiation oncology, gynecologic oncology, surgical oncology and bone marrow transplants. Several comprehensive support services programs complement AGH's clinical oncology services. These support services include dedicated oncology social workers, home health care and hospice services, nutritional counseling and psychiatric and rehabilitative counseling.

AGH's Cancer Program has a major research emphasis with projects in the area of breast cancer, lung cancer, sarcoma of the bone, brain tumors and the development of minimally invasive approaches to the treatment of malignancies. Additionally, AGH is reorganizing its cancer services under an umbrella structure referred to as a Cancer Center. The Director of AGH's Cancer Center has also been elected as Chairman and Principal Investigator of the National Surgical Adjuvant Breast and Bowel Project (NSABP), which is one of the largest breast care clinical research projects in the country.

Orthopaedic Surgery. AGH's comprehensive range of orthopaedic procedures includes joint replacement, sports medicine, trauma, spinal surgery, upper-extremity surgery, pediatric orthopaedics, physical medicine and rehabilitation, treatment of diseases affecting muscles, bones, ligaments and tendons, and management of deformity and growth-related problems. In addition, AGH's Department of Orthopaedic Surgery is a major referral center in Western Pennsylvania for patients who have sustained severe orthopaedic trauma injuries.

Neurosciences. AGH offers an interdisciplinary case management approach which integrates the neurosurgery, neurology, psychiatry, ophthalmology, neuro-radiology and neuro-otology disciplines. A comprehensive range of medical and surgical techniques facilitates the treatment of patients with central nervous system disorders.

The Department of Ophthalmology, since 1988, has recruited sub-specialists in glaucoma, vitreoretinal disease and corneal-external disease to treat patients with these specific disorders. In addition, the Departments of Ophthalmology and Neurosurgery provide surgical laser techniques to treat orbital tumors.

The Department of Neurosurgery has 13 neurosurgeons practicing the following subspecialties: spinal and disk disorders, neuro-trauma, neuro-oncology, neuro-vascular (strokes, aneurysms, arteriovenous malformations), epilepsy, pain management, congenital/developmental disorder and skull-based bone disorders. Since 1989, AGH has offered a spina bifida program which has treated over 400 adult and pediatric patients afflicted with this disorder.

The Department of Neurosurgery performs more than 600 microdissectomies per year. In conjunction with the Department of Orthopaedics, AGH has the only team in Western Pennsylvania with joint prospective evaluation of all spinal instrumentation procedures for trauma. The recently established Back Institute, staffed by neurology, neurosurgery, orthopaedic surgery, psychiatry, neuropsychiatry, physical therapy and anesthesiology, emphasizes the non-surgical conservative management of patients with low back pain and sciatic pain. AGH has some of the most experienced aneurysm surgeons in the tri-state regions, including a physician who has performed over 1500 craniotomies for microsurgical ablations.

AGH has developed a Brain Attack Program, a cooperative effort between neurology, neurosurgery and neuroradiology. Two research protocols exist for the treatment of stroke. One is Pro-Urokinase, a double blinded, randomized study using Thrombolytic for acute middle cerebral artery strokes. The second is Selfotel, a neuroprotective drug once for acute hemispheric strokes.

Neurology includes a comprehensive epilepsy program that includes investigational medications, surgery when appropriate, psychological/psychiatric counseling for particular emotional problems associated with epilepsy, as well as the day-to-day care of epilepsy patients. The Division of Neurology also includes specialists in headache management, muscle diseases and stroke, as well as all other neurological problems.

Trauma Services. AGH opened the first trauma center in Southwestern Pennsylvania. It was the first site, in 1986, to be accredited as a "Level I" regional resource trauma center by the Pennsylvania Trauma Systems Foundation (the "Foundation"). The Foundation requires that facilities designated as Level I trauma centers treat at least 600 trauma victims per year, maintain resources for cardiothoracic, plastic and micro surgery, and maintain ongoing teaching and research activities as part of their commitment to developing regional trauma systems. AGH is also accredited by the Foundation for its expertise in pediatric trauma. The trauma center serves a four-state region.

AGH's services and facilities for treating trauma victims include a 14-bed designated critical care trauma unit, a five-bed pediatric specialty care unit, a trauma team of designated nurses and surgeons available 24 hours a day, four fully equipped trauma rooms in its emergency department, and social services personnel who are specially trained to handle the needs of trauma patients. The trauma center admitted over 2,800 patients in fiscal year 1994.

In addition, in response to a demand for sophisticated emergency care, and as a result of AGH's emergency and trauma capabilities, AGH initiated the Life Flight Emergency Medical Helicopter Program, the first of its kind in the eastern United States, in 1978. The Life Flight Program serves patients within a 130-mile radius of AGH and transports patients to the medical facilities of AGH and other health care providers that best suit the patients' needs. Over the past 15 years, Life Flight aircraft have completed over 21,000 flights. Currently, Life Flight uses three twin turbine-powered helicopters, one based at AGH, one at Indiana Hospital, Indiana, Pennsylvania, and one at the Butler County Airport in Butler, Pennsylvania.

Transplantation Services. AGH has offered heart, single lung, kidney and pancreas transplantation programs since 1988. As of September, 1994, 550 kidney transplants, 82 heart transplants, 10 single-lung transplants and 21 pancreas transplants had been performed.

Allegheny Neuropsychiatric Institute. Prior to November, 1994, Allegheny Neuropsychiatric Institute ("ANI") was a separate Pennsylvania nonprofit corporation and a member of the Obligated Group and was licensed for 94 beds. ANI was one of only a few facilities in the nation that provided diagnostic assessment and multispecialty treatment of patients with behavioral disturbances which result from brain injuries and neurological disorders.

In November, 1994, ANI was merged into AGH, and its programs were integrated with those of the AGH Department of Psychiatry. At that time, its licensed bed complement was reduced to 31 beds and combined with AGH's 28 licensed inpatient psychiatric beds, for a total current licensed inpatient psychiatric bed complement of 59 beds. AGH continues to offer the array of services that had been provided at ANI and continues to use the name "Allegheny Neuropsychiatric Institute" in describing the services now provided at AGH. Four inpatient psychiatric units occupy newly renovated space in the Snyder Pavilion where the inpatient programs and activities of the former ANI continue.

Adult Neuropsychiatric Unit. Patients treated in this program include young to middle-aged adults with general psychiatric problems, neurological and behavioral problems and traumatic brain injury. These patients are also treated for Huntington's Chorea, Parkinsonism, impulse control, organic mood disorder and status-post neurosurgical interventions.

Geriatric Unit. Patients in this program are generally older than 55 years of age and commonly include patients with depression, dementia and organic mood disease, Alzheimer's disease and other behavioral problems experienced by the elderly.

Developmental Disabilities ("PAD") Program. This program treats adult patients with developmental disabilities who have psychiatric and mental retardation disorders.

Child/Adolescent Program. This program provides inpatient care for children and adolescents who may have general psychiatric problems or who have a dual diagnosis of neurological and behavioral problems. Patients are treated in this program for autism, developmental disorders, depression and mental retardation.

ANI also offers facilities for the treatment of children and adolescents on an outpatient basis. A multidisciplinary team works with the patient's family and the patient's school system to ensure appropriate management of medications and behavioral programs. ANI also offers an eight week day-treatment program which assists patients in making the transition from inpatient to outpatient care.

Historical Utilization of Patient Care Services.

Set forth below is a summary of selected historical patient care utilization statistics for AGH for the three fiscal years ended June 30, 1994. The number of beds reported includes 119 Continuing Care Center beds and 94 ANI beds as of June 30 of each such fiscal year (prior to the reduction of the number of licensed Continuing Care Center beds and ANI beds which occurred after June 30, 1994), is based upon licensed beds on June 30 of each such fiscal year and is not an average for the fiscal years. A discussion and analysis of historical and projected trends in patient care services are included under the caption, "MANAGEMENT'S DISCUSSION AND ANALYSIS", below.

HISTORICAL UTILIZATION OF PATIENT CARE SERVICES⁽¹⁾			
	Fiscal Year Ended June 30		
	1992	1993	1994
Licensed beds:			
Medical/Surgical ⁽²⁾	622	622	622
Obstetrics	34	34	34
Pediatrics	23	23	23
Specialty care units	139	139	139
Nursery	22	22	22
Post-acute care	119	119	119
Total licensed beds	959	959	959
Number of Available Beds:			
Medical/Surgical ⁽²⁾	583	588	587
Obstetrics	34	34	34
Pediatrics	23	23	23
Specialty care units	139	139	140
Nursery	22	22	22
Post-acute care	119	119	119
Total number of available beds	920	925	925
Admissions:			
Medical/Surgical ⁽²⁾	18,790	18,122	17,355
Obstetrics	1,863	2,145	1,970
Pediatrics	1,588	1,693	1,594
Specialty care units	6,031	6,480	7,087
Nursery	1,164	1,553	1,419
Post-acute care	627	643	666
Total admissions	30,063	30,636	30,091
Patient days:			
Medical/Surgical ⁽²⁾	168,513	165,210	146,606
Obstetrics	5,309	6,241	6,109
Pediatrics	6,894	6,864	6,215
Specialty care units	45,578	44,493	40,869
Nursery	2,786	3,594	3,174
Post-acute care	19,190	21,847	20,143
Total patient days	248,270	248,249	223,116

HISTORICAL UTILIZATION OF PATIENT CARE SERVICES⁽¹⁾

(Continued)	Fiscal Year Ended June 30		
	1992	1993	1994
Average length of stay:			
Medical/Surgical ⁽²⁾	9.0	9.1	8.4
Obstetrics	2.8	2.9	3.1
Pediatrics	4.3	4.1	3.9
Specialty care units	7.6	6.9	5.8
Overall average length of stay	8.3	8.1	7.4
Post-acute care	30.6	34.0	30.2
Occupancy rate (as % of available beds):			
Medical/Surgical ⁽²⁾	80%	78%	69%
Obstetrics	45	53	52
Pediatrics	82	82	74
Specialty care units	91	88	81
Overall occupancy rate	75%	74%	67%
Post-acute care	46%	50%	46%
Average daily census	679	680	611
Selected ancillary utilization:			
Surgical cases	17,181	18,091	17,512
Diagnostic radiological procedures	145,816	150,592	142,601
Clinical laboratory procedures	1,580,659	1,591,940	1,538,532
Newborn deliveries	1,313	1,742	1,556
Cardiac catheterizations	7,046	6,780	6,302
Emergency air transports	2,421	2,225	2,239
Therapeutic radiological treatments	24,234	29,167	30,576
Ambulatory visits:			
Emergency room visits	48,520	47,854	44,121
Home care	44,560	44,975	56,005
Other	94,208	116,422	103,273
Total ambulatory visits	187,288	209,251	203,399

(1) Includes 119 Continuing Care Center beds and 94 ANI beds.

(2) Includes inpatient psychiatric beds.

Source: AGH

Medical Staff

As of September 30, 1994, there were 645 physicians on the medical staff of AGH. Of these, 427 physicians are members of the active staff of AGH, of which 89.9% are board certified. The average age of the medical staff is 43.9 years. From 1990 to 1994, the total medical staff had a net increase of 77 physicians. The departments experiencing the largest net increases were the Departments of Medicine, Psychiatry and Orthopaedic Surgery.

MEDICAL STAFF				
Department/Division-	Total Medical Staff	Active Medical Staff		
		Number	Board Certified	Average Age
MEDICINE:				
Allergy	3	2	2	49.0
Cardiology	76	52	50	43.2
Dental Medicine	19	12	3	42.7
Dermatology	3	2	2	38.5
Endocrinology	5	4	4	45.8
Gastroenterology	12	9	9	50.1
General Medicine	65	32	30	39.7
* Hematology	13	13	13	42.5
Infectious Diseases	4	3	3	43.2
* Medical Oncology	15	15	15	47.4
Nephrology & Hypertension	18	9	9	44.1
Neurology	15	9	8	43.6
Radiation Oncology	5	5	5	42.0
Respiratory Diseases	9	8	8	42.9
Rheumatology	4	2	2	55.0
Subtotal	259	170	156	
SURGERY:				
Emergency Medicine	19	15	14	37.6
General Surgery	16	13	13	48.0
Oral & Maxillofacial Surgery	27	13	11	45.3
Otorhinolaryngology	5	4	4	47.4
Pediatric Surgery	1	1	1	40.0
Plastic Surgery	7	4	4	47.3
Colorectal Surgery	3	3	3	56.0
** Surgical Oncology	4	4	4	44.0
Thoracic Surgery	11	10	10	48.3
Urology	22	8	7	49.7
Subtotal	115	75	71	
ANESTHESIOLOGY	28	28	28	45.3
NEUROSURGERY	13	12	9	45.0
OPHTHALMOLOGY	20	7	7	41.3
ORTHOPAEDIC SURGERY	58	44	26	41.5
** OBSTETRICS/GYNECOLOGY	43	22	19	43.8
PEDIATRICS	33	16	15	45.1
DIAGNOSTIC RADIOLOGY	50	27	27	42.3
LABORATORY MEDICINE	15	15	15	48.9
TOTAL	645	427	382	
* Seven members of the medical staff have a dual appointment in the Departments of Hematology and Medical Oncology and are counted twice, once under each specialty, but are not counted twice in the totals.				
** Two members of the medical staff have a dual appointment in the Departments of Surgical Oncology and Obstetrics/Gynecology and are counted twice, once under each specialty, but are not counted twice in the totals.				
Source: AGH				

The following is a profile of the departments with the top ten admitting physician groups for the fiscal year ended June 30, 1994:

TEN TOP ADMITTING PHYSICIAN GROUPS			
Specialty Area	Admissions	% of Total	Average Age of Physician Group
Surgery	2,125	7.4%	43
Neurosurgery	1,362	4.7%	38
Pediatrics	1,160	4.0%	40
Cardiology	1,096	3.8%	44
Cardiothoracic Surgery	948	3.3%	53
Cardiology	783	2.7%	54
Cardiology	756	2.6%	48
Gastroenterology	657	2.3%	47
Urology	596	2.1%	49
Pulmonary Medicine	593	2.1%	50

Source: AGH

Employees

AGH presently employs a total of 5,074 full time and part-time employees, or 4,502 full time-equivalent employees. These figures include 205 full time or part-time (or 196 full time-equivalent) research scientists and physicians in the MCPHU Faculty Practice Plan. Employees receive a comprehensive flexible benefit package which includes medical, prescription drug, dental insurance, long-term disability insurance, life insurance and health-care and dependent-care reimbursement accounts. Other benefits include a tax-deferred annuity/matched savings plan and a qualified pension program. There are no unions representing AGH's employees. Management has taken steps to attract and retain qualified personnel and to date has not experienced any significant personnel shortages.

Education Programs

AGH is dedicated to maintaining its status as a premier academic medical center. Education is provided for AGH's physicians, nurses, allied health personnel, health care managers and administrators and other employees through a full range of graduate education courses, continuing education courses, outreach and national conferences. AGH's affiliation with MCPHU through their membership in the Allegheny System has also enhanced AGH's ability to fulfill its commitment to medical education. Approximately 56% of MCPHU's third and fourth year medical students complete clerkships and

electives or selectives at AGH's facilities. AGH's graduate medical education program is one of the most comprehensive teaching programs of any teaching hospital in Western Pennsylvania. Members of AGH's active medical staff teach in AGH's graduate medical education program, and some of these medical staff members are on MCPHU's faculty.

AGH maintains residency programs in anesthesiology, dentistry, diagnostic radiology, emergency medicine, internal medicine, general surgery, obstetrics-gynecology, oral maxillofacial surgery, pathology, psychiatry and thoracic surgery. In addition, AGH has affiliated residencies in the areas of otolaryngology, ophthalmology, plastic surgery and urology. For physicians seeking further training upon completion of their residencies, AGH offers subspecialty residencies and fellowships in cardiology, gastroenterology, pulmonary diseases, oncology, nephrology and neuroradiology. At present, there are 248 residents and fellows participating in these programs.

Accreditations, Memberships and Approvals

AGH is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), licensed by the Commonwealth of Pennsylvania and approved by the American College of Physicians and the American College of Surgeons. AGH received its most recent JCAHO accreditation on September 16, 1994 which is effective through September 16, 1997. AGH is also accredited by the Pennsylvania Trauma Systems Foundation as a "Level I" regional resource trauma center for both adult and pediatric trauma patients.

AGH is a member of the Council of Teaching Hospitals (COTH), the Association of American Medical Colleges (AAMC), the Hospital Association of Pennsylvania (HAP) and the Hospital Council of Western Pennsylvania (HCWP). AGH is also a shareholder in the Voluntary Hospitals of America, Inc. (VHA) and a partner in the VHA of Pennsylvania.

Each of AGH's residency and fellowship programs is approved by either the Accreditation Council for Graduate Medical Education or the Commission on Dental Accreditation of the American Dental Association.

Insurance

Institutional health care providers in Pennsylvania are required by law to maintain primary professional liability insurance in the amount of \$200,000 per occurrence and \$1,000,000 in the annual aggregate. Excess liability insurance is provided by statute through the Medical Professional Liability Catastrophe Loss Fund (the "CAT Fund") in the amount of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. Additional limits in excess of the CAT Fund are funded and/or purchased on an annual basis in the unlikely event of a catastrophic occurrence. These limits are reviewed on an annual basis by the Board of Trustees of AHERF.

Individual physicians in Pennsylvania are required by law to carry primary professional liability insurance in the amount of \$200,000 per occurrence and \$600,000 in the annual aggregate and to procure excess liability insurance through the CAT Fund.

All of AGH's employees and certain non-employed physicians who are on the medical staff of AGH are covered by the insurance program offered by AHERF through AHSPIC to the members of the Allegheny System. See the caption, "**THE ALLEGHENY SYSTEM—Other Members of the Allegheny**

System—Allegheny Health Services Providers Insurance Company", above. Physicians who have an independent-contractor relationship with AGH but who are not insured through AHSPIC are required to submit proof of professional liability insurance in order to join AGH's medical staff.

ALLEGHENY-SINGER RESEARCH INSTITUTE

General

ASRI conducts clinical and pre-clinical medical research programs in disciplines which complement AGH's clinical specialties. ASRI's major areas of clinical medical research are the four interdisciplinary disciplines of neurosciences, cardiovascular/pulmonary, cancer and musculo-skeletal/trauma. The major focus of ASRI's pre-clinical medical research is human genetics. Among other accomplishments, ASRI's research laboratories have developed improved surgical procedures and techniques, as well as instruments, and improved pre-operative and post-operative life support devices.

Board of Trustees

Members of the Board of Trustees of ASRI are appointed by AHERF to staggered three-year terms. Trustees receive no compensation for their services as trustees.

Listed below are the names of the members of the Board of Trustees of ASRI, their offices and their professional affiliations.

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* Ex officio, without vote.

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Relationship of Parties

ASRI is subject to the AHERF Conflict of Interest Policy which requires that board members and management disclose any potential conflicts of interest and refrain from voting on issues which may present a conflict. In addition, ASRI is subject to the AHERF Conflicts of Interest in Research Policy which requires investigators to disclose any personal or financial interests in the sponsors of their research and provides a mechanism for resolution of potential or real conflicts.

Certain members of the Board of Trustees of ASRI are associated with organizations which do business with AHERF and other members of the Allegheny System.

Management

Dr. James H. McMaster has been the President and Chief Executive Officer of ASRI since 1990. In addition, Dr. McMaster is a Professor of Orthopaedic Surgery, Allegheny Campus, MCPHU, and the Chairman of the Department of Orthopaedic Surgery at AGH. He received his medical degree from Temple University Medical School and completed an orthopaedic residency at the University of Pittsburgh School of Medicine, where he was an Associate Professor of Orthopaedic Surgery prior to coming to AGH in 1976. Dr. McMaster also directs the Orthopaedic Research Laboratory of ASRI, focusing on metabolic diseases of bone, principally osteogenic sarcoma.

Leslie Shuttleworth has been the Vice President of ASRI since 1990. Previously, she served as the Assistant Vice President, Clinical Affairs, of AGH. Ms. Shuttleworth is a registered nurse and received an R.N. diploma from Presbyterian-University Hospital School of Nursing, a bachelor's degree in education from California University of Pennsylvania and a master's degree in human resource management from LaRoche College. Prior to joining AGH in 1976, Ms. Shuttleworth was a Head Nurse at Children's Hospital of Pittsburgh.

Description of Facilities

ASRI's research programs are housed in several buildings known as the South Tower, Powerhouse, East Wing, One Allegheny Center, and the University of Pittsburgh Applied Research Center (UPARC). All are located in Pittsburgh, Pennsylvania, adjacent to or near AGH's hospital facilities, except for UPARC, which is located in Harmarville, Pennsylvania. The research facilities contain approximately 80,000 square feet, comprised of laboratories, offices, computer and shared equipment rooms, a central animal facility and storage/mechanical areas.

Funding

ASRI receives grants from, and contracts with, outside organizations to support its research activities. Such organizations include federal and state agencies (primarily the National Institute of Health, United States Department of Education and the Pennsylvania Department of Education), foundations, associations, industry companies and local agencies. ASRI actively seeks contributions for the establishment of endowments to support its research. As of June 30, 1994 ASRI had a total of \$7,630,000 in endowments. In addition, ASRI receives funding from AHERF and other members of the Allegheny System. Total research expenditures during fiscal years 1992 through 1994 amounted to approximately \$55.8 million.

Set forth below is a summary of extramural funding for the three fiscal years ended June 30, 1994 and a summary of endowment income earned during the same period.

GRANTS, CONTRACTS, CONTRIBUTIONS AND ENDOWMENT INCOME			
	Fiscal Year Ended June 30		
	1992	1993	1994
	(Dollars in Thousands)		
Extramural Funding:			
Grants and Contracts	\$6,051	\$6,500	\$5,067
Contributions	267	322	129
Fee Income	171	51	44
Endowment Income	181	204	225
TOTAL	\$6,670	\$7,077	\$5,462
Endowment Contributions:			
Outside Sources	\$ 0	\$1,000	\$1,250
Allegheny System	0	1,000	1,000
TOTAL	\$ 0	\$2,000	\$2,250

Employees

ASRI presently employs a total of 156 full time and part-time employees or 146.9 full time-equivalent employees. ASRI employees receive the same comprehensive flexible benefit package provided to AGH employees. There are no unions representing ASRI's employees.

Accreditations, Memberships and Approvals

As a research institute which is the recipient of federal grants and contracts, ASRI has certain assurances of compliance and certifications on file with the Public Health Service as required by law.

In addition, the ASRI Central Animal Facility and Animal Research Program are subject to inspection by the United States Department of Agriculture generally two times each year.

ASRI holds membership in the Association of Independent Research Institutes, the Pennsylvania Society of Biomedical Research and the American Association of Laboratory Animal Sciences.

Insurance

All of ASRI's employees are covered by the insurance program offered by AHERF through AHSPIC to the members of the Allegheny System. See the caption, "THE ALLEGHENY SYSTEM - Other Members of the Allegheny System - Allegheny Health Services Providers Insurance Company", above.

CERTAIN FINANCIAL INFORMATION FOR THE OBLIGATED GROUP

Summary of Revenue and Expenses

Set forth below is a summary of revenue and expenses of operations of the Obligated Group for each of the three fiscal years ended June 30, 1994 and for the seven-month periods ended January 31, 1994 and January 31, 1995.

The information for the three-year period ended June 30, 1994 has been derived from the consolidated audited financial statements of the Obligated Group examined by Coopers & Lybrand L.L.P., independent public accountants. The information for the seven-month periods ended January 31, 1994 and January 31, 1995 has been derived from the unaudited consolidated financial statements of the Obligated Group which were prepared by management in accordance with generally accepted accounting principles applied on a consistent basis and which reflect all adjustments necessary, in the opinion of management, for a fair presentation of the results of operations for the interim period. The results of operations for the seven months ended January 31, 1995 are not necessarily reflective of the results which may be achieved for the full fiscal year ended June 30, 1995. All of the summary financial information provided below for the three-year period ended June 30, 1994 should be read in conjunction with the consolidated audited financial statements and related notes for the two fiscal years ended June 30, 1994 which are included in Appendix B to the Official Statement.

SUMMARY OF REVENUE AND EXPENSES					
	Fiscal Year Ended June 30			Seven Months Ended January 31 (Unaudited)	
	1992	1993	1994	1994	1995
	(Dollars in Thousands)			(Dollars in Thousands)	
Revenue:					
Net patient service revenue	\$377,538	\$392,844	\$400,896	\$231,225	\$234,263
Research support	7,106	15,679	16,260	9,705	10,387
Other operating revenue	12,912	10,399	11,405	5,490	6,411
Total revenue	397,556	418,922	428,561	246,420	251,061
Expenses:					
Salaries, wages, and fringe benefits	202,787	219,874	223,297	126,012	121,353
Materials, supplies and services	152,327	155,765	168,384	103,075	109,411
Depreciation and amortization	21,748	22,089	25,182	14,970	15,393
Interest	13,224	13,692	9,232	5,316	5,961
Total expenses	390,084	411,420	426,095	249,373	252,118
Income from operations	7,472	7,502	2,466	(2,953)	(1,057)
Nonoperating gains, net	10,146	14,122	11,573	6,968	5,690
Excess of revenue and net gains over expenses	\$17,618	\$21,624	\$14,039	\$ 4,015	\$ 4,633

Support to MCPHU

Pursuant to an Affiliation Agreement dated November 24, 1987 (the "Affiliation Agreement") between AHERF and The Medical College of Pennsylvania (the former name of MCPHU), AHERF has committed the Allegheny System to provide financial support to MCPHU for its teaching, academic research and health service programs. The level of financial support is determined annually based upon the Allegheny System's operating performance and funds availability. The Allegheny System as a whole provided financial support to MCPHU for the three fiscal years June 30, 1992, 1993 and 1994 in the amounts of \$10,100,000, \$7,227,000 and \$7,629,000, respectively. Included in the financial support

received by MCPHU from the Allegheny System in the three fiscal years June 30, 1992, 1993 and 1994 is approximately \$1,086,000, \$887,000 and \$1,062,000, respectively, which was allocated to the funding of research. On a prospective basis, a contribution by AHERF is expected to continue to be made to MCPHU.

As a result of the support afforded MCPHU, AGH has enjoyed the benefits of a fully integrated academic affiliation, particularly with the School of Medicine. The conduct, administration and supervision of the undergraduate medical education activities conducted at AGH have been the responsibility of MCPHU. The Vice Dean of the Allegheny Campus coordinates with the academic administration of MCPHU in the oversight of all academic programs conducted at AGH. MCPHU oversees the selection, supervision and evaluation of faculty at the Allegheny Campus. The academic affiliation has provided additional strength to the graduate medical education programs at AGH and has enhanced medical education and medical care through the presence of the third and fourth year clerkships.

AHERF and AGH do not have any other agreements in place with other members of the Allegheny System which obligate them to provide ongoing support payments.

Investment Policy

The Board of Trustees of AHERF has approved Statements of Investment Policy which are applicable to all of the members of the Allegheny System. The investment policy charges the investment advisers retained by AHERF to manage the financial assets of the Allegheny System in accordance with the Statements of Investment Policy. The Statements of Investment Policy establish policies as to the percentages of investments required or permitted to be made in debt, equity and cash equivalents and place limitations on the types and quality of investments. The investment advisers have latitude to manage investments within the parameters of the Statements of Investment Policy. The investment advisers' performance is reviewed quarterly by members of the management of AHERF and by an independent investment consultant. An analysis of investment performance is reviewed by the Finance Committee of the Board of Trustees of AHERF on a quarterly basis.

SOURCES OF REVENUE

General

Set forth below is a summary of the percentages of gross revenue earned by AGH (including ANI through the date of its merger with AGH) under agreements with Blue Cross of Western Pennsylvania ("Blue Cross"), Medicare, Medicaid, managed care organizations and other third-party payors (such as employers under direct purchase arrangements) for the three fiscal years ended June 30, 1994. For a discussion of various risks and other matters relating to, among other things, the reliance of the Obligated Group, particularly AGH, on third-party payor programs, see "BONDHOLDERS' RISKS" in the forepart of the Official Statement to which this Appendix A is attached.

GROSS REVENUE BY PAYOR CLASS				
Fiscal Years Ended June 30 ¹				
	1992	1993	1994	Six Months Ended December 31, 1994
Blue Cross ⁽¹⁾	24.4%	22.8%	21.5%	18.8%
Medicare	44.1	46.2	46.8	46.2
Medicaid	13.2	13.0	11.6	10.6
Managed Care ⁽²⁾	n/a ⁽³⁾	n/a ⁽³⁾	3.4	10.5
Other	18.3	18.0	16.8	13.9
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Indemnity plan only.

⁽²⁾ For information regarding AGH's relationships with managed care organizations, see the subcaption, "Managed Care Relationships," below.

⁽³⁾ Data was not maintained for managed care utilization for such years.

Source: AGH

Blue Cross Indemnity Contract

AGH's current contract with Blue Cross under its indemnity plan is effective through July, 1996. Under the indemnity plan, Blue Cross pays AGH for inpatient services based on a prospective rate for each discharge, determined by the patient's diagnosis, and for medical education, capital-related and outpatient costs based on a prospective payment system. In addition, the contract provides that through June, 1995, if AGH agrees with any other non-governmental payor to provide health care services for amounts less than those applicable to Blue Cross subscribers, Blue Cross may renegotiate the

reimbursement provisions of the contract. The contract further provides that if AGH and Blue Cross cannot reach an agreement on new reimbursement provisions, Blue Cross may terminate the contract with 90 days' notice.

Managed Care Relationships

Within the past few years, AGH has aggressively attempted to negotiate contracts with many managed care organizations (MCO) in an effort to position itself favorably in the changing reimbursement environment of Western Pennsylvania. Presently, AGH has full services contracts with Aetna Health Plans, ALPHA Health Network, American Select Care, Blue Cross of Western Pennsylvania (including Keystone Health Plan (Blue Cross HMO), Preferred Blue (Blue Cross PPO) and Select Blue (Blue Cross POS)), Clear-Med Corp., First Health Network, Gateway Health Plan (of which Diversified Health Group, Inc., an affiliate of AHERF, is a general partner and AGH is a limited partner), InterGroup Services Corp. and US Healthcare. AGH also has limited agreements with the following MCO's for services primarily tertiary in nature: Advantage Health Plan, Health America, Kaiser Health Plan and several smaller organizations. These agreements include contracts that incorporate various reimbursement methodologies based on DRG's, per diems and percent discounts off billed charges, as well as limited capitation contracts for outpatient and laboratory services. For the six months ended December 31, 1994, 12% of AGH admissions have been patients enrolled in MCO's, primarily AGH's employee HMO, Keystone Health Plan and Gateway Health Plan.

AGH intends to continue to market itself to MCO's, both locally and nationally, and to self-insured employers in order to develop full service contracts or specific limited contracts for highly specialized services.

AGH is engaged in the development of an integrated delivery network with other hospitals in Southwestern Pennsylvania. See the caption, "MANAGEMENT'S DISCUSSION AND ANALYSIS—Future Plans" below.

INDEBTEDNESS OF THE OBLIGATED GROUP

The Obligated Group has previously issued the following notes under the Master Indenture:

(1) A Note, Series 1988A dated February 24, 1988 (the "1988A Note"), issued and presently outstanding in the original principal amount of \$60,000,000, and a Note, Series 1988B, dated February 24, 1988 (the "1988B Note" and, together with the 1988A Note, the "1988 Notes") issued in the principal amount not to exceed \$61,208,220. The 1988A Note was issued to evidence AGH's payment obligations with respect to the Allegheny County Hospital Development Authority Hospital Revenue Bonds (Allegheny Health, Education and Research Corporation) Series 1988A through Series 1988D (the "1988 Bonds"), which are presently outstanding in the principal amount of \$54,300,000. The final maturity of the 1988 Bonds is March 1, 2018. The 1988B Note was issued to evidence AGH's reimbursement obligations in connection with a bank letter of credit which further secures payment of the 1988 Bonds.

(2) A Note, 1991 Series A dated January 1, 1991 (the "1991 Note"), issued in the original principal amount of \$60,000,000 and presently outstanding in the principal amount of \$57,050,000. The 1991 Note was issued to evidence AGH's payment obligations with respect to the Pennsylvania Higher

Educational Facilities Authority Revenue Bonds (Allegheny General Hospital), 1991 Series A (the "1991 Bonds") issued in the original principal amount of \$60,000,000 and presently outstanding in the principal amount of \$57,050,000. The final maturity of the 1991 Bonds is September 1, 2017.

(3) A Variable Interest Rate Demand Note, Series 1993A (the "1993A Note"), a Note, Series 1993B (the "1993B Note") and a Note, Series 1993C (the "1993C Note" and, together with the 1993A Note, the 1993B Note and the hereinafter defined 1993D Note, the "1993 Notes"), each dated January 29, 1993, and issued in the respective original principal amounts of \$30,000,000, \$15,000,000 and \$15,000,000, and a Note, Series 1993D (the "1993D Note"), dated January 29, 1993, and issued in a principal amount not to exceed \$30,450,000. The final maturity of the 1993 Notes is July 1, 2012. The 1993A Note, the 1993B Note and the 1993C Note, which are presently outstanding in the respective principal amounts of \$28,500,000, \$14,247,521 and \$13,937,918, were issued to refinance certain bonds of the Allegheny County Hospital Development Authority previously issued on behalf of AGH. The 1993D Note was issued to evidence AGH's reimbursement obligations in connection with a bank letter of credit which further secures payment of the 1993A Note.

(4) Series 1994A Master Note (the "1994A Note"), dated June 17, 1994, issued and outstanding in the original principal amount of \$7,500,000. The 1994A Note was issued to secure a loan of like principal amount to ANI. The 1994A Note matures on June 16, 1999.

The 1995A Master Note will be equally and ratably secured under the Master Indenture with the above-described notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The overall financial performance of the Obligated Group for fiscal year 1994 remained strong, despite a decline in excess of revenue and net gains over expenses of approximately \$7.6 million and \$3.6 million from the fiscal years ended June 30, 1993 and 1992, respectively. This decrease in operating performance was primarily attributable to mounting constraints on net patient service revenue, including enacted workers' compensation reform, increased levels of charity care, and patient shifts from indemnity to managed care health insurance coverage. Inpatient activity for fiscal year 1994, as measured in admissions, decreased by 1.8% from fiscal year 1993 levels. Patient acuity, as measured by the case mix index, remained consistent with the prior fiscal year. Outpatient activity increased by 7.6% from the previous fiscal year. Lower levels of investment income (nonoperating gains) were attributable to declining interest rates and lower investable balances. Operating ratios continued to significantly exceed median results for comparable institutions.

For the seven-month period ended January 31, 1995, excess revenue and net gains over expenses increased approximately \$0.6 million from the same period of the prior year. This increase in operating performance was accomplished in spite of (i) operating costs related to the relocation of ANI's psychiatric programs and services from ANI's previous location in Oakdale, Pennsylvania to AGH's main clinical hospital facility, (ii) the \$3.0 million decline in ANI's operating performance as compared to the first seven months of fiscal year 1994 and (iii) a continuation of constraints on patient service revenue described in the immediately preceding paragraph. Inpatient activity, as measured by admissions, increased by 2.1% from the first seven months of fiscal year 1994. Patient acuity, as measured by case

mix index, increased by more than 3.0% from the prior fiscal year period, adding approximately \$1.5-\$2.5 million to patient service revenue. Outpatient service revenue was essentially unchanged from the first seven months of fiscal year 1994. Lower levels of investment income (nonoperating gains) were attributable to lower investable balances and less gains on security sales. In light of the pressures on patient service revenue, as described above, which are expected to continue, and as further explained below under the caption, "Future Plans", the Obligated Group has formulated strategies to improve and reconfigure processes, to expand and enhance current clinical services, to develop new clinical services and to expand service areas.

Financial Condition

The Obligated Group maintained a solid financial position, as evidenced by increases in total assets and net equity of \$14.3 and \$16.5 million, respectively, during fiscal year 1994. Additionally, liquidity and capital ratios remain strong, both in absolute terms and in comparison to relevant peer groups.

Total assets and net equity at January 31, 1995 increased \$0.9 million and \$0.5 million, respectively, since June 30, 1994. At January 31, 1995, days cash on hand approximated 98.1 and the cash cushion ratio approximated 4.7. Additionally, the debt to capitalization ratio remains stable at 44.2%.

Future Plans

In order for AGH to continue its current position in an increasingly competitive environment, it will focus its efforts on the formulation of strategies to position AGH to meet the changing demands and expectations of the marketplace. Such strategies will focus primarily on decreasing costs, increasing service levels and increasing patient, physician and staff satisfaction through the implementation of process improvement initiatives, reconfiguration, expansion and enhancement of clinical services, and the development of a comprehensive primary care network.

Critical pathways defining the optimal sequencing and timing of patient interventions have been shown to significantly reduce variation in the provision of care, facilitate expected outcomes, reduce delays and lengths of stay, and improve cost effectiveness. Initial critical pathways have been prioritized based on relative costs and volumes, length of stay reduction opportunities, and ease of development and implementation. It is expected that 80% of all AGH patients will be served by critical pathways by July, 1996.

AHERF, in cooperation with Baxter Healthcare Corporation, is in the process of implementing a stockless inventory management program for all patient care supplies used by AGH and the other health care providers in the Allegheny System. All of the software systems required for this program were installed as of February 1, 1995, and the program is scheduled to be phased in throughout the current fiscal year. Under this program, which is expected to result in substantial savings for AGH and the other health care providers in the Allegheny System, AHERF will undertake the standardization of and bidding for all patient care supplies. Payment to Baxter Healthcare Corporation for services under this program will be based solely on the savings on patient care supply costs resulting from this program.

AGH has undertaken a patient-centered care initiative which entails the redesign of the delivery of patient care so that hospital resources and personnel are organized around patients rather than around various centralized or specialized departments. The goal of this initiative is to cluster homogenous clinical categories of patients on the same nursing unit. AGH has begun to implement the patient-centered care initiative, which will involve the consolidation of nursing units, and expects that it will take approximately three years to complete.

AGH has initiated a strategy to recruit and place primary care physicians in its service area. AGH is currently developing, both independently and in cooperation with other providers, systems of ambulatory satellite links to primary care physicians in satellite or private offices. It is expected that these systems will begin to be functional sometime in fiscal year 1996.

In order to compete effectively in the managed care market place, AGH is currently developing global, or all encompassing, prices for several procedures based on AGH volume and cost and marketplace demands. It is expected that global prices for several procedures will be in use by July 1, 1995.

AGH is engaged in the development of the Southwest Integrated Delivery Network (SIDN) which includes AGH, Allegheny Valley Hospital, Forbes Health System, St. Clair Memorial Hospital, St. Margaret's Hospital and Sewickley Valley Hospital, all of which are located in Southwestern Pennsylvania, and their respective medical staffs. It is anticipated that SIDN will be developed on the basis of shared governance and shared success among participating providers, and will be managed-care oriented. It is the participants' intention that, through the formation of a strong geographic primary care network, SIDN will develop a steady stream of referrals to the specialists and inpatient and outpatient services of member hospitals.

ASRI has targeted human genetics, neurosciences, cardiovascular/pulmonary, musculoskeletal/trauma, and cancer research as its major areas of focus. It is anticipated that the external funding base will be expanded through the development of an aggressive fund raising program. Internal support is expected to remain constant for the foreseeable future.

AHERF and its affiliates have developed a deliberate, well conceived plan for growth. They continually assess opportunities in the marketplace that will enhance their respective commitments to their missions to learn, to teach, to heal the sick, and to conserve health through the sponsorship of superior programs in health, education and research while containing costs to the community. It is anticipated that AHERF will continue to evaluate clinical and academic affiliations that will enhance health and academic objectives.

Appendix B

**Consolidated Financial Statements
of the Obligated Group for the Two Years
Ended June 30, 1994**

GOV 19825



Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants

To the Board of Trustees of
Allegheny General Hospital:

We have audited the accompanying consolidated balance sheets of Allegheny General Hospital as of June 30, 1994 and 1993, and the related consolidated statements of revenue and expenses, changes in net equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny General Hospital as of June 30, 1994 and 1993, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Pittsburgh, Pennsylvania
September 16, 1994

ALLEGHENY GENERAL HOSPITAL
CONSOLIDATED BALANCE SHEETS
June 30, 1994 and 1993
(Dollars in Thousands)

ASSETS		1994	1993
Current assets:			
Cash and cash equivalents		\$ 5,591	\$ 5,281
Short-term investments		17,573	12,512
Receivables:			
Patient accounts, less allowance for uncollectible accounts of \$9,970 in 1994 and \$13,412 in 1993		73,356	74,409
Grants and other		4,568	3,189
Inventories		8,973	8,686
Prepaid expenses		1,323	2,060
Total current assets		111,384	106,137
Investments limited or restricted as to use		130,382	147,517
Property and equipment, net		237,119	209,463
Other assets		13,722	15,214
Total assets		<u>\$ 492,607</u>	<u>\$ 478,331</u>
LIABILITIES AND NET EQUITY			
Current liabilities:			
Accounts payable and accrued expenses		\$ 45,032	\$ 46,586
Deferred grant revenue		4,182	5,155
Current portion of long-term debt		4,541	10,389
Total current liabilities		53,755	62,130
Long-term debt		173,707	170,747
Deferred grant revenue		2,492	3,272
Other noncurrent liabilities		12,842	8,912
Total liabilities		242,796	245,061
Net equity:			
General		222,491	213,661
Restricted:			
Specific purposes		17,306	12,668
Endowments		10,014	6,941
Total net equity		249,811	233,270
Total liabilities and net equity		<u>\$ 492,607</u>	<u>\$ 478,331</u>

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
For the years ended June 30, 1994 and 1993
(Dollars in Thousands)

	<u>1994</u>	<u>1993</u>
Revenue:		
Net patient service	\$ 400,896	\$ 392,844
Research support	16,260	15,679
Other	<u>11,405</u>	<u>10,399</u>
Total revenue	<u>428,561</u>	<u>418,922</u>
Expenses:		
Salaries, wages, and fringe benefits	223,297	219,874
Materials, supplies, and services	168,384	155,765
Depreciation and amortization	25,182	22,089
Interest	<u>9,232</u>	<u>13,692</u>
Total expenses	<u>426,095</u>	<u>411,420</u>
Income from operations	2,466	7,502
Nonoperating gains, net	<u>11,573</u>	<u>14,122</u>
Excess of revenue and net gains over expenses	<u>\$ 14,039</u>	<u>\$ 21,624</u>

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY GENERAL HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY
 For the years ended June 30, 1994 and 1993
 (Dollars in Thousands)

	General	Restricted Specific Purposes	Endowments
Balances at June 30, 1992	\$ 228,862	\$ 11,815	\$ 4,556
Excess of revenue and net gains over expenses	21,624	-	-
Restricted:			
Gifts, grants, and bequests	-	686	2,000
Depreciation and loss on disposal of assets	-	(1,136)	-
Investment income	-	503	385
Transfers (to)/from:			
Affiliates, net	(37,079)	1,172	-
Revenue	-	(1,690)	-
Property and equipment additions from:			
Restricted funds	254	(254)	-
Deferred revenue and other	-	1,572	-
Balances at June 30, 1993	213,661	12,668	6,941
Excess of revenue and net gains over expenses	14,039	-	-
Restricted:			
Gifts, grants, and bequests	-	1,000	2,478
Depreciation and loss on disposal of assets	-	(1,382)	-
Investment income	-	481	595
Transfers (to)/from:			
Affiliates, net	(5,053)	(68)	-
Revenue	-	(841)	-
Property and equipment additions from:			
Restricted funds	48	(48)	-
Deferred revenue and other	-	5,496	-
Other	(204)	-	-
Balances at June 30, 1994	\$ 222,491	\$ 17,306	\$ 10,014

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY GENERAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 1994 and 1993
(Dollars in Thousands)

	1994	1993
Cash flows from operating activities and net gains:		
Excess of revenue and net gains over expenses	\$ 14,039	\$ 21,624
Adjustments to reconcile excess of revenue and net gains over expenses to net cash provided by operating activities and net gains:		
Depreciation and amortization	25,182	22,089
Amortization of bond discount	53	54
Net gains on marketable equity security sales	(4,762)	(6,113)
Loss/(Gain) on investments in joint ventures	(32)	1,787
Increase/(decrease) in cash and cash equivalents from changes in:		
Short-term investments	(6,725)	527
Receivables	27	5,312
Inventories	(287)	(1,043)
Prepaid expenses	735	(437)
Accounts payable and accrued expenses	(6,361)	(2,419)
Other	5,369	(885)
Net cash provided by operating activities and net gains	27,238	40,496
Cash flows from investing activities:		
Acquisition of property and equipment, net	(36,010)	(45,274)
Transfers from specific purpose funds for acquisition of property and equipment	48	254
Decrease in investments limited as to use, net	25,494	49,820
Net cash (used)/provided by investing activities	(10,468)	4,800
Cash flows from financing activities:		
Issuance of long-term debt	7,500	60,000
Advance refunding of long-term debt	-	(63,310)
Repayments of long-term debt	(10,441)	(2,885)
Net transfers to affiliates	(13,519)	(37,079)
Net cash used by financing activities	(16,460)	(43,274)
Net increase in cash and cash equivalents	310	2,022
Cash and cash equivalents, beginning of year	5,281	3,259
Cash and cash equivalents, end of year	\$ 5,591	\$ 5,281
Supplemental disclosure:		
Cash paid for interest	\$ 8,994	\$ 15,891
Noncash transactions:		
Net transfer of property and equipment from affiliates	\$ 8,466	\$ -
Accrued property and equipment items	\$ 4,159	\$ 3,372

The accompanying notes are an integral part of the consolidated financial statements.